GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:6048
ANSWERED ON:31.08.2001
CODE OF ETHICS FOR ELECTED DIRECTOR OF STOCK EXCHANGES
SHEESH RAM SINGH RAVI

Will the Minister of FINANCE be pleased to state:

to reply given to Unstarred Question No. 6059 regarding codeof ethics for elected directors of stock exchange dated April 27, 2001 and please state:

(a) whether the said information has been collected;

(b) if so, the details thereof;

(c) if not, the reasons therefor; and

(d) the details of elected directors found involved in irregularities and action taken against each one?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) to (c): The information has since been collected. A copy of the Implementation Report sent to Lok Sabha is enclosed at annex 1.

(d): The information is being collected and will be laid on the table of the House.

Annex 1 referred to in reply to the Lok Sabha Unstarred Question No. 6048 for 31st August,2001 regarding Code of Ethics for Elected Director of Stock Exchanges

SEBI has intimated that they have formulated acode of ethics for Directors and functionaries of stock exchanges aimed at improving transparency in the Indian Stock Exchanges.The code of ethics seeks to establish professional and ethical standards for creating a fair and transparent market.

The code of ethics has the following salient features:

- Fairness and transparency in dealing with matters relating to the exchange and the investors
- Prohibition on dealings in securities in proprietary account by elected office bearers of the exchange (President/Vice President/Treasurer)
- Disclosure of dealings in securities by functionaries and directors of the exchange
- Avoidance of conflict of interest in decision making and
- Disclosures of beneficial interest by all Directors and functionaries
- Compliance with all laws/rules/regulations laid down by regulatory agencies/exchange and exercising due diligence in the performance of duties.

When implemented, the code is expected to help inimproving the professional and ethical standards of exchanges and also in creating better perception amongst investors about their working. Section 11 of the SEBI Act, 1992 provides that it is theduty of the SEBI Board to protect the interest of investorsin securities and to promote the development of and to regulate the securities market by such measures as it thinks fit. SEBI has intimated thatit has taken various measures, in the interest of investors and orderly development of the securities market; from time to time to perform its duties effectively. During March and April, 2001, following investigations carried out by SEBI, it has taken actionas per Section 11 and 11B of the SEBI Act, 1992against various entities like Anand Rathi and his concerns, Ketan Parekh and his concerns, Arvind Johri,Shankar Sharma and Devina Mehra and the entities controlled by and connected with them, Nirmal Bang, Kishore Bang andDilip Bang and the entities controlled by them prohibiting them from undertaking any fresh business as stock brokers or sub broker or merchant bankers. Palombe Securities Pvt Ltd was debarred from dealing in securities. Anand Rathi and other broker member directors were earlier restrained by SEBI from acting as directors on the governing board of Stock Exchange, Mumbai. HarshadMehta has been permanently debarred from dealing in securities. His prosecution has also been ordered under Section 24 of the SEBI Act, 1992.BPL Limited, Videocon Internationaland

Sterlite Industries Ltd have been debarred from accessingcapital market for a period ranging from 2 to 4 years. Prosecution proceedings against these 3 companies under SEBI Act, 1992 have also been ordered by SEBI.

Government intends to propose legislative changes to further strengthen the provisions in the SEBI Act, 1992 toensure investor protection.

In order to strengthen the institutional arrangements in the capital markets, for protecting small investors and to make the market safer and more transparent, SEBI have takenseveral measures. These include introduction of computerised screen based trading, setting up of trading terminals in different cities, establishment of Clearing Corporation to improve transparency and efficiency in the markets, setting up of trade/settlement guarantee fund by stock exchanges, setting up of depositories and expediting dematerialisation, setting up of surveillance systems in stock exchanges, introducing uniform norms for good and bad delivery, weekly settlement cycle and auction, setting up of investor protection fund and investors` services fund.

SEBI has reported that few members in some of theexchanges failed to fulfil their pay-in liabilities in the month of March, 2001 due to volatile market conditions during this period. The details of pay-in amount due and amount of short fall against that in the major exchanges is as below:-

(Rs. Crores)

Sl.No.	Exchange	Total Pay-in	Shortfall	% shortfall to total Pay-in liability
1.	BSE	4252.48	31.21	0.73
2.	NSE	4818.38	98.51	2.04
3.	CSE	871.43	95.40+	10.95
4.	DSE	232.98	0.89	0.38
5.	ASE	191.31	4.59	2.54

+ Out of this, Rs. 91.36 crores pertains to 10 members, who have been declared as defaulters by Calcutta Stock Exchange (CSE).

In case of pay-in shortfall by a member, the short amount is generally taken from the settlement guarantee fund of the exchange as per prescribed norms.

SEBI has taken various steps to safeguard the interest ofinvestors by infusing more transparency in stock exchanges, widening and deepening the reach of the market, speeding up transactions and ensuring safety in capital market transactions. The steps taken by SEBI include setting up of tradeguarantee fund/settlement guarantee fund, investor protection fund, surveillance systems in the stock exchanges, implementation of risk management measures such as implementation of circuit filters and uniform intra-day price band, margin system, intra-day trading and gross exposure limits for stock brokers linked with capital adequacy, etc.

The objective of the Government and SEBI is to ensure thatcapital markets operate in an orderly, transparent, safe and fair manner. Government has announced, inter-alia, the following measures to improve institutional mechanisms and trading practices in the stock markets:
(i) demutualisation of stock exchanges by which ownership, management, and trading membership would be segregated from each other;
(ii) extension of rolling settlement to 200 category `A` stocks. This has been implemented from July 2, 2001;
(iii) to propose legislative changes in the SEBI Act, 1992 to strengthen investor protection provisions.